

CITY OF ALTA

INDEPENDENT AUDITOR'S REPORTS  
PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2012

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CITY OF ALTA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2012)		
Richard Morris	Mayor	January, 2012
Jim Heschke	Council Member	January, 2012
Molly Elston	Council Member	January, 2012
Mike Holton	Council Member	January, 2012
Pam Henderson	Council Member	January, 2014
Brian Walsh	Council Member	January, 2014
Thomas M. Huseman	Clerk/ Finance Officer	Indefinite
John Murray	Attorney	Indefinite
(After January, 2012)		
Ron Neulieb	Mayor	January, 2014
Molly Elston	Council Member	January, 2014
Pam Henderson	Council Member	January, 2014
Brian Walsh	Council Member	January, 2014
Rob Hach	Council Member	January, 2016
Ron Chapman	Council Member	January, 2016
Thomas M. Huseman	Clerk/ Finance Officer	Indefinite
John Murray	Attorney	Indefinite

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Alta, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents. These financial statements are the responsibility of the City of Alta's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

The financial statements referred to above include only the primary government of City of Alta, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of City of Alta, Iowa, as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with basis of accounting described in Note 1.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Alta as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of City of Alta's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Alta's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Alta's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 11 and 24 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

March 22, 2013

Hunzelman, Putzier & Co., PLLC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Alta provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$4,570,179 for the year ended June 30, 2012 and included \$364,882 in property taxes, \$178,605 road use tax collections, and \$203,937 in local option sales tax.

Disbursements of the City's governmental activities were \$4,309,358 for the year ended June 30, 2012 and included \$228,346 for public safety, \$185,754 for public works, \$146,179 for culture and recreation, and \$3,530,974 for capital projects.

The City's total cash basis net assets increased 70%, or approximately \$335,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$261,000 and the assets of the business type activities increased by approximately \$74,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sewer, solid waste, and community building services. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (3) the Debt Service Fund, and (4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the sewer, solid waste, and community building funds. All are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities

	Year ended <u>June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service	\$ 77,746
Operating grants, contributions and restricted interest	257,037
Capital grants, contributions and restricted interest	489,389
General receipts:	
Property tax	364,883
Tax increment financing	6,598
Local option sales tax	203,937
Unrestricted interest on investments	891
Loan proceeds	3,114,354
Sale of assets	42,580
Other general receipts	12,764
Total receipts	<u>4,570,179</u>
Disbursements:	
Public safety	228,346
Public works	185,754
Culture and recreation	146,179
Community and economic development	29,969
General government	143,441
Debt service	44,695
Capital projects	3,530,974
Total disbursements	<u>4,309,358</u>
Increase in cash basis net assets	260,821
Cash basis net assets beginning of year	<u>39,149</u>
Cash basis net assets end of year	<u>\$ 299,970</u>

The cash basis net assets of the City's governmental activities increased by approximately \$261,000 from June 30, 2011 due primarily to the receipt of loan proceeds reimbursing costs incurred in the prior year in connection with the wastewater treatment plant construction.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

### Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 163,522
Solid Waste	176,382
Community Building	42,846
Total receipts	<u>382,750</u>
Disbursements:	
Sewer	94,982
Solid Waste	159,181
Community Building	54,074
Total disbursements	<u>308,237</u>
Increase in cash basis net assets	74,513
Cash basis net assets beginning of year	<u>441,063</u>
Cash basis net assets end of year	<u>\$ 515,576</u>

Total business type activities cash basis net assets increased from a year ago, from approximately \$441,000 to approximately \$516,000. The increase is primarily a result of rate increases in the sewer and solid waste funds during the year.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Alta completed the year, its governmental funds reported a combined fund balance of \$299,970, an increase of \$39,149 from last year's total of \$260,821. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$349,480 from the prior year to \$489,823. This increase was primarily due to the transfer of \$351,146 from Local Option Sales Tax.

The Special Revenue Fund - Road Use Tax, cash balance decreased by \$34,164 to \$(118,680) during the fiscal year. This decrease was primarily due to funding of street projects.

The Special Revenue Fund - Local Option Sales Tax, cash balance decreased by \$498,335 to \$0. This decrease was due to the transferring of funds to the General and Capital Projects funds.

The Capital Projects Fund cash balance increased \$440,017 from the prior year to \$(195,531). This increase was primarily due to the transfer of \$351,146 from Local Option Sales Tax.

The Debt Service Fund cash balance decreased \$3,355 from the prior year to \$80,627.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system, cash balance increased by \$68,540 to \$444,705 during the fiscal year. This increase was primarily a result of a rate increase which was implemented during the year.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste collection activities, cash balance increased by \$17,201 to \$110,080 during the fiscal year. This increase was also primarily a result of a rate increase which was implemented during the year.

The Community Building Fund accounts for the operation and maintenance of the City's Community Building, cash balance decreased by \$11,228 to \$(39,209) during the fiscal year due to less bookings and an increase in costs to provide this service.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2012 and resulted in an increase of \$860,000 in disbursements.

The budget was amended due to increased costs in connection with the sewer plant construction.

## DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$3,600,000 in bonds and loans, compared to approximately \$544,000 last year, as shown below.

<u>Outstanding Debt at Year-End</u>		<u>Year ended</u> <u>June 30, 2012</u>
General obligation bonds		\$ 185,000
Revenue interim loans		3,437,930
Total		<u>\$ 3,622,930</u>

Debt increased as a result of additional advances on the sewer revenue interim financing loan.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$185,000 is significantly below its constitutional debt limit of approximately \$3.8 million.

## ECONOMIC FACTORS

The City of Alta's elected and appointed officials and citizens consider many factors when setting the fiscal year 2012 budget. The process begins in November and is completed in March. One important factor we consider is the economy and another is the 2010 census. Alta is a slowly growing community and that allows us to project Road Use Tax revenues and future Solid Waste fees since they are based largely on population. By examining the Road Use Tax revenues we can establish what amount can be spent in that fund. Applications for our tax abatement program and building permits help us to project property valuations in the short term. It was a goal of the Council to maintain a total tax levy of \$8.14 per \$1,000 of taxable valuation. That is the levy in 2013 and will also be in 2014.

### ECONOMIC FACTORS – (Continued)

Our wastewater treatment plant was reconstructed over the last two years. Sewer rates were increased to cover debt service. The amount of increase was minimized by the combination of increased population and an agreement with the Lake Creek Sanitary Sewer District to treat their wastewater. Eighty-two housing units were added which has helped spread the cost among more users.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tom Huseman, City Clerk, 223 Main St., Alta, Iowa 51002.

CITY OF ALTA  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 228,346	\$ 35,302	\$ 24,501	\$ 12,800	\$ (155,743)	\$ -	\$ (155,743)
Public works	185,754	7,275	220,605	-	42,126	-	42,126
Culture and recreation	146,179	28,079	11,931	6,678	(99,491)	-	(99,491)
Community and economic development	29,969	-	-	-	(29,969)	-	(29,969)
General government	143,441	7,090	-	7,000	(129,351)	-	(129,351)
Debt service	44,695	-	-	-	(44,695)	-	(44,695)
Capital projects	3,530,974	-	-	462,911	(3,068,063)	-	(3,068,063)
Total governmental activities	<u>4,309,358</u>	<u>77,746</u>	<u>257,037</u>	<u>489,389</u>	<u>(3,485,186)</u>	<u>-</u>	<u>(3,485,186)</u>
Business type activities:							
Sewer	94,982	163,522	-	-	-	68,540	68,540
Solid Waste	159,181	176,382	-	-	-	17,201	17,201
Community Building	54,074	42,846	-	-	-	(11,228)	(11,228)
Total business type activities	<u>308,237</u>	<u>382,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,513</u>	<u>74,513</u>
Total	<u>\$ 4,617,595</u>	<u>\$ 460,496</u>	<u>\$ 257,037</u>	<u>\$ 489,389</u>	<u>(3,485,186)</u>	<u>74,513</u>	<u>(3,410,673)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					\$ 323,542	\$ -	\$ 323,542
Debt service					41,340	-	41,340
Tax increment financing					6,598	-	6,598
Local option sales tax					203,937	-	203,937
Unrestricted interest on investments					891	-	891
Sale of assets					42,580	-	42,580
Loan proceeds					3,114,354	-	3,114,354
Miscellaneous					12,765	-	12,765
Total general receipts and transfers					<u>3,746,007</u>	<u>-</u>	<u>3,746,007</u>
Change in cash basis net assets					260,821	74,513	335,334
Cash basis net assets beginning of year					<u>39,149</u>	<u>441,063</u>	<u>480,212</u>
Cash basis net assets end of year					<u>\$ 299,970</u>	<u>\$ 515,576</u>	<u>\$ 815,546</u>

(continued)

CITY OF ALTA  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit A  
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating	Capital	Governmental	Business Type	Total
	Disbursements	Services	Grants and Contributions	Grants and Contributions	Activities	Activities
Cash Basis Net Assets						
Restricted:						
Nonexpendable:						
Library				\$ 5,030	\$ -	\$ 5,030
Expendable:						
Tax increment financing projects				33,819	-	33,819
Debt service				80,627	-	80,627
Other purposes				4,882	-	4,882
Unrestricted				175,612	515,576	691,188
Total cash basis net assets				\$ 299,970	\$ 515,576	\$ 815,546

See notes to financial statements.

CITY OF ALTA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Special Revenue						Total
	General	Road Use Tax	Local Option Sales Tax	Capital Projects	Debt Service	Non-major	
Receipts:							
Property tax	\$ 323,542	\$ -	\$ -	\$ -	\$ 41,340	\$ -	\$ 364,882
Tax increment financing	-	-	-	-	-	6,598	6,598
Other city tax	-	-	203,937	-	-	-	203,937
Licenses and permits	10,677	-	-	-	-	-	10,677
Use of money and property	2,489	-	-	-	-	-	2,489
Intergovernmental	33,755	178,605	-	462,911	-	-	675,271
Charges for service	38,330	-	-	-	-	-	38,330
Miscellaneous	110,461	-	-	-	-	600	111,061
Total receipts	519,254	178,605	203,937	462,911	41,340	7,198	1,413,245
Disbursements:							
Operating:							
Public safety	228,346	-	-	-	-	-	228,346
Public works	2,954	182,800	-	-	-	-	185,754
Culture and recreation	146,179	-	-	-	-	-	146,179
Community and economic development	-	29,969	-	-	-	-	29,969
General government	143,441	-	-	-	-	-	143,441
Debt service	-	-	-	-	44,695	-	44,695
Capital Projects	-	-	-	3,530,974	-	-	3,530,974
Total disbursements	520,920	212,769	-	3,530,974	44,695	-	4,309,358
Excess (deficiency) of receipts over disbursements	(1,666)	(34,164)	203,937	(3,068,063)	(3,355)	7,198	(2,896,113)
Other financing sources (uses):							
Loan proceeds	-	-	-	3,114,354	-	-	3,114,354
Proceeds from sale of assets	-	-	-	42,580	-	-	42,580
Operating transfers in	351,146	-	-	351,146	-	-	702,292
Operating transfers out	-	-	(702,292)	-	-	-	(702,292)
Total other financing sources (uses)	351,146	-	(702,292)	3,508,080	-	-	3,156,934
Net change in cash balances	349,480	(34,164)	(498,355)	440,017	(3,355)	7,198	260,821
Cash balances beginning of year	140,343	(84,516)	498,355	(635,548)	83,982	36,533	39,149
Cash balances end of year	\$ 489,823	\$ (118,680)	\$ -	\$ (195,531)	\$ 80,627	\$ 43,731	\$ 299,970

CITY OF ALTA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B  
 (continued)

	Special Revenue					Total
	General	Road Use Tax	Local Option Sales Tax	Capital Projects	Debt Service	
Cash Basis Fund Balances						
Nonspendable - Library	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,030
Restricted for:						
Debt service	-	-	-	-	80,627	80,627
Tax increment financing projects	-	-	-	-	-	33,819
Other purposes	-	-	-	-	-	4,882
Unassigned	489,823	(118,680)	-	(195,531)	-	175,612
Total cash basis fund balances	<u>\$ 489,823</u>	<u>\$ (118,680)</u>	<u>\$ -</u>	<u>\$ (195,531)</u>	<u>\$ 80,627</u>	<u>\$ 43,731</u>

See notes to financial statements.

CITY OF ALTA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

	<u>Enterprise</u>			
	<u>Sewer</u>	<u>Solid Waste</u>	<u>Community Building</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 163,522	\$ 176,382	\$ 42,846	\$ 382,750
Operating disbursements:				
Business type activities	<u>94,982</u>	<u>159,181</u>	<u>54,074</u>	<u>308,237</u>
Net change in cash balances	68,540	17,201	(11,228)	74,513
Cash balances beginning of year	<u>376,165</u>	<u>92,879</u>	<u>(27,981)</u>	<u>441,063</u>
Cash balances end of year	<u>\$ 444,705</u>	<u>\$ 110,080</u>	<u>\$ (39,209)</u>	<u>\$ 515,576</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ 444,705</u>	<u>\$ 110,080</u>	<u>\$ (39,209)</u>	<u>\$ 515,576</u>

See notes to financial statements.



CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Alta is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, City of Alta has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Unit

The Alta Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. The Utility's operating budget is subject to the approval of the City Council. Complete financial statements of the individual component unit, which will issue separate financial statements, can be obtained from the Utility administrative office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Joint Disaster Services Commission, Buena Vista County E911 Service Board, and Buena Vista County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation – (Continued)

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for capital improvements and property tax relief.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through proprietary funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's long-term debt.

The City reports the following major proprietary funds:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste collection activities.

CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation – (Continued)

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Community Building Fund accounts for the operation and maintenance of the City's Community Building.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, debt service and business type activities functions.

2. CASH

The City's deposits in banks at June 30, 2012, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. BONDS AND LOANS PAYABLE

Annual debt service requirements to maturity for general obligation bonds and the sewer revenue interim loans are as follows:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>General Obligation</u>		<u>Sewer Revenue Interim</u>		<u>Total</u>	
	<u>Bonds</u>		<u>Loans</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 35,000	\$ 7,778	\$ 3,437,930	\$ 93,309	\$ 3,472,930	\$ 101,087
2014	35,000	6,342	-	-	35,000	6,342
2015	35,000	4,890	-	-	35,000	4,890
2016	40,000	3,420	-	-	40,000	3,420
2017	40,000	1,720	-	-	40,000	1,720
	<u>\$ 185,000</u>	<u>\$ 24,150</u>	<u>\$ 3,437,930</u>	<u>\$ 93,309</u>	<u>\$ 3,622,930</u>	<u>\$ 117,459</u>

Sewer Revenue Interim Financing

To facilitate the construction of improvements to the City's wastewater treatment facility the City has obtained a long term financing commitment from USDA Rural Development. The terms of this agreement specify the use of a local bank to provide interim financing as the project progresses. Upon completion of the project, the interim financing proceeds will be paid off with long term sewer revenue notes from USDA Rural Development.

CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012, was \$19,193, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit

Vacation

\$ 8,364

This liability has been computed based on rates of pay in effect at June 30, 2012.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$326 for single coverage, \$662 for employee plus dependent, and \$1,040 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$39,613 to the plan.

7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ALTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 351,146
Capital Projects	Special Revenue: Local Option Sales Tax	<u>351,146</u>
Total		<u>\$ 702,292</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. DEFICIT BALANCE

The Road Use Tax and Capital Projects Funds have deficit balances of \$118,680 and \$195,531, respectively as of June 30, 2012. These deficits were a result of costs incurred prior to availability of funds. These deficits will be eliminated by loan proceeds, transfers from other funds, and the sale of residential lots.

10. LANDFILL AGREEMENT

The City participates in an agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the county and municipalities. Payments to that commission totaled \$117,568 during the year ended June 30, 2012.

11. CONTRACTS AND COMMITMENTS

The City has entered into the following contracts, which were not completed as of June 30, 2012.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of June 30, 2012</u>	<u>Remaining Commitment As of June 30, 2012</u>
Wastewater Construction Project	\$ 3,974,510	\$ 3,487,163	\$ 487,347

The above remaining commitment will be paid with loan proceeds and funds on hand.

## OTHER INFORMATION

CITY OF ALTA  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 364,882	\$ -	\$ 364,882	\$ 360,087	\$ 360,087	\$ 4,795
Tax increment financing collections	6,598	-	6,598	2,200	2,200	4,398
Other city tax	203,937	-	203,937	154,313	154,313	49,624
Licenses and permits	10,677	-	10,677	8,573	8,573	2,104
Use of money and property	2,489	-	2,489	17,075	27,075	(24,586)
Intergovernmental	675,271	-	675,271	187,500	187,500	487,771
Charges for service	38,330	382,750	421,080	320,700	380,700	40,380
Miscellaneous	111,061	-	111,061	3,089,305	3,889,305	(3,778,244)
Total receipts	<u>1,413,245</u>	<u>382,750</u>	<u>1,795,995</u>	<u>4,139,753</u>	<u>5,009,753</u>	<u>(3,213,758)</u>
Disbursements:						
Public safety	228,346	-	228,346	202,643	222,643	(5,703)
Public works	185,754	-	185,754	204,454	224,454	38,700
Culture and recreation	146,179	-	146,179	218,554	218,554	72,375
Community and economic development	29,969	-	29,969	42,206	42,206	12,237
General government	143,441	-	143,441	141,669	161,669	18,228
Debt service	44,695	-	44,695	43,200	43,200	(1,495)
Capital Projects	3,530,974	-	3,530,974	3,045,000	3,845,000	314,026
Business type activities	-	308,237	308,237	257,735	257,735	(50,502)
Total disbursements	<u>4,309,358</u>	<u>308,237</u>	<u>4,617,595</u>	<u>4,155,461</u>	<u>5,015,461</u>	<u>397,866</u>
Excess (deficiency) of receipts over disbursements	(2,896,113)	74,513	(2,821,600)	(15,708)	(5,708)	(2,815,892)
Other financing sources	<u>3,156,934</u>	<u>-</u>	<u>3,156,934</u>	<u>-</u>	<u>-</u>	<u>3,156,934</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	260,821	74,513	335,334	(15,708)	(5,708)	341,042
Balances, beginning of year	<u>39,149</u>	<u>441,063</u>	<u>480,212</u>	<u>240,686</u>	<u>240,686</u>	<u>239,526</u>
Balances, end of year	<u>\$ 299,970</u>	<u>\$ 515,576</u>	<u>\$ 815,546</u>	<u>\$ 224,978</u>	<u>\$ 234,978</u>	<u>\$ 580,568</u>

See accompanying independent auditor's report.



CITY OF ALTA  
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2012 the budget was amended one time which increased budgeted disbursements by \$860,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, debt service, and business type activities function.

## SUPPLEMENTARY INFORMATION

CITY OF ALTA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Special Revenue			Permanent	
	Tax				
	Increment				
	Financing	Forfeiture	Library	Library	Total
Receipts:					
Tax increment financing	\$ 6,598	\$ -	\$ -	\$ -	\$ 6,598
Miscellaneous	-	600	-	-	600
Total receipts	6,598	600	-	-	7,198
Disbursements:					
None	-	-	-	-	-
Net change in cash balances	6,598	600	-	-	7,198
Cash balances beginning of year	27,221	6	4,276	5,030	36,533
Cash balances end of year	<u>\$ 33,819</u>	<u>\$ 606</u>	<u>\$ 4,276</u>	<u>\$ 5,030</u>	<u>\$ 43,731</u>
Cash Basis Fund Balances					
Nonspendable - Library	\$ -	\$ -	\$ -	\$ 5,030	\$ 5,030
Restricted for:					
Tax increment financing	33,819	-	-	-	33,819
Other purposes	-	606	4,276	-	4,882
Total cash basis fund balances	<u>\$ 33,819</u>	<u>\$ 606</u>	<u>\$ 4,276</u>	<u>\$ 5,030</u>	<u>\$ 43,731</u>

See accompanying independent auditor's report.

CITY OF ALTA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2012

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General obligation bonds and capital loan notes:								
G.O. Bonds	March 15, 2007	4.10-4.30%	\$ 340,000	\$ 220,000	\$ -	\$ 35,000	\$ 185,000	\$ 9,195
Revenue notes:								
Sewer Interim Planning Note	October 1, 2008	0%	\$ 135,000	\$ 135,000	\$ -	\$ -	\$ 135,000	\$ -
Sewer Interim Project Note	January 18, 2011	3.98%	3,900,000	188,576	3,114,354	-	3,302,930	-
			\$ 4,035,000	\$ 323,576	\$ 3,114,354	\$ -	\$ 3,437,930	\$ -

CITY OF ALTA  
DEBT MATURITIES  
JUNE 30, 2012

Schedule 3

Year Ending June 30	General Obligation		Revenue Project Notes			
	Rates	Amount	Sewer Interim Planning Loan Issued October 1, 2008		Sewer Interim Project Loan Issued January 18, 2011	
			Rates	Amount	Rates	Amount
2013	4.10%	\$ 35,000	0%	\$ 135,000	3.98%	\$ 3,302,930
2014	4.15	35,000		-		-
2015	4.20	35,000		-		-
2016	4.25	40,000		-		-
2017	4.30	40,000		-		-
		<u>\$ 185,000</u>		<u>\$ 135,000</u>		<u>\$ 3,302,930</u>

See accompanying independent auditor's report.

CITY OF ALTA  
COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
AGENCY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

	Summer Baseball Program	Benefits Account	Trees Forever	Horizons	Total
Receipts	\$ 42,459	\$ 4,642	\$ 5,802	\$ 4,344	\$ 57,247
Disbursements	<u>56,296</u>	<u>3,935</u>	<u>6,375</u>	<u>2,216</u>	<u>68,822</u>
Net change in cash balances	(13,837)	707	(573)	2,128	(11,575)
Cash balances beginning of year	<u>33,227</u>	<u>1,692</u>	<u>2,402</u>	<u>4,282</u>	<u>41,603</u>
Cash balances end of year	<u>\$ 19,390</u>	<u>\$ 2,399</u>	<u>\$ 1,829</u>	<u>\$ 6,410</u>	<u>\$ 30,028</u>

See accompanying independent auditor's report.

CITY OF ALTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012

Schedule 5

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Direct			
U.S. Department of Agriculture:			
Rural Development			
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781		\$ 3,408,415
Indirect:			
U.S. Department of Housing and Urban Development			
Iowa Department of Economic Development Authority			
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	14.228	09-WS-001	<u>462,911</u>
			<u>\$ 3,871,326</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Alta and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Alta, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Alta, Iowa as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents, and have issued our report thereon dated March 22, 2013. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

The management of City of Alta, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Alta's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Alta's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Alta's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Alta's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Alta's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Alta. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Alta's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Alta's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Alta and other parties to whom City of Alta may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hunnegelman, Putzies & Co., PLC

March 22, 2013

# HUNZELMAN, PUTZIER & Co., PLC

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## Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

### Compliance

We have audited City of Alta, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on City of Alta's major federal programs for the year ended June 30, 2012. City of Alta's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of City of Alta's management. Our responsibility is to express an opinion on City of Alta's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Alta's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Alta's compliance with those requirements.

In our opinion, City of Alta complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The management of City of Alta is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Alta's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Alta's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-12 to be a material weakness.

City of Alta's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Alta's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Alta and other parties to whom City of Alta may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hunzelman, Putzier & Co., PLC*

March 22, 2013

CITY OF ALTA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 10.781 – Water and Waste Disposal Systems for Rural Communities - ARRA.
  - CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Alta did not qualify as a low-risk auditee.

CITY OF ALTA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Due to limited office personnel, segregation of duties is difficult. Thorough review of the financial reports will be done monthly by the City Council. We will try to achieve segregation of duties by associating duties with the office of the Municipal Utility.

Conclusion - Response accepted.

- II-B-12 Fire Department Funds - The Fire Department currently maintain separate bank accounts which are not included in the City's financial records. This is not separate non-profit corporation, but is a department which was established by City ordinance. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response - We agree the Fire Department funds should be included in the City financial records and we will consult the fire membership to achieve that goal.

Conclusion - Response accepted.

- II-C-12 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements

CITY OF ALTA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements – (Continued):

INTERNAL CONTROL DEFICIENCIES – (Continued)

II-C-12 Financial Reporting – (Continued)

Response – The City will work to obtain additional knowledge by reading relevant literature and enrolling in local education courses.

Conclusion – Response accepted.

Part III: Findings Related to Federal Awards:

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.781: Water and Waste Disposal Systems for Rural Communities - ARRA  
Federal Award Year: 2012  
U.S. Department of Agriculture

CFDA Number 14.228: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii  
Pass-through Agency Number 09-WS-001  
Federal Award Year: 2009  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development

III-A-12 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs.  
See item II-A-12.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the public safety, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – A budget amendment was approved by the City Council on May 7, 2012. It was thought at the time that the budget amendment would be sufficient to cover expenditures in each program. A special effort will be made to see that the City of Alta is in compliance with Chapter 384.20 of the Code of Iowa in the future.

Conclusion – Response accepted.

CITY OF ALTA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Statutory Reporting: - (Continued)

IV-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Transaction Amount</u>
Ron Neulieb, Mayor, Owner of Control System Specialists	Maintenance	\$701

In accordance with chapter 362.5(k) of the Code of Iowa, the above transactions do not appear to be a conflict of interest since total transactions were less than \$2,500 during the fiscal year

IV-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-G-12 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-H-12 Financial Condition - At June 30, 2012, the City had deficit balances in the Special Revenue, Road Use Tax and the Capital Projects funds of \$118,680, and \$195,531, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response - The City will work with their audit firm to eliminate these deficits in order to return the funds to a sound financial condition.

Conclusion - Response accepted.

CITY OF ALTA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Statutory Reporting: - (Continued)

IV-I-12    Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and request that we receive both the front and back images of cancelled checks.

Conclusion – Response accepted.